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A Balanced US-Japan Trade Relationship

Mike Mansfield 1903-2001

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I wish him continued
good health + happiness

REMARKS BY AMBASSADOR MIKE MANSFIELD
BEFORE THE JAPAN NATIONAL PRESS CLUB
TOKYO, JULY 12, 1985
(AS DELIVERED)

"A BALANCED U.S.-JAPAN TRADE RELATIONSHIP"

Thank you for this opportunity to speak before such a prestigious group as the Japan National Press Club. First, may I offer my congratulations to His Imperial Majesty, the Emperor, who tomorrow will set a longevity record among all Japan's monarchs. I wish him continued good health and happiness.

You are all aware of my strong views on the importance of the U.S.-Japan relationship to the peace and prosperity of the Pacific region. And I am sure you have heard often my strong conviction that the next century will be the Century of the Pacific. This is where the action is and where it will be in the future.

Because I feel so strongly about this U.S.-Japan relationship and about the Pacific region, I am compelled to be frank with you today about the very serious strains in our trade relations. We have had trade differences since I arrived here eight years ago, and for many years before that. But the present

situation is something new, something very dangerous, and something that causes me deep concern.

Japan should not underestimate the present threat of protectionism in the United States. There are now more protectionist bills pending in Congress than we have seen in 50 years, and the likelihood of some of those bills being passed in the near future is high -- very high. Many business groups in America are now abandoning their traditional support of free trade in favor of legislation restricting Japanese imports. "Reciprocity" is the catchword being heard in Washington these days.

It would be a serious mistake to think Congress is only crying wolf when it talks of retaliatory trade legislation against Japan. My recent visit to Washington convinced me that the pressure for trade protection is the greatest that I can recall. Both the U.S. and Japan share responsibility for this situation. Both must share in the task of finding a solution.

Our economic relationship has become so important -- to the U.S. and Japan as well as the rest of the free world -- that we simply must not let it be damaged by protectionism and the closing of markets. Just over a decade ago, U.S. trade with all of East

Asia amounted to \$42 billion. By 1983 -- nine years later -- bilateral trade between the U.S. and Japan alone totaled over \$64 billion. In 1984, our two-way trade soared to \$84 billion, and this growth is continuing, creating benefits for export industries on both sides of the Pacific.

The U.S. market has become ever more vital to the Japanese economy. In 1983, 29 percent of Japan's total exports went to the United States. In 1984, the U.S. share of Japan's global exports increased to 35.2 percent, and by April of this year we were taking 38.9 percent of Japan's exports. At the same time, the importance of the Japanese market to the U.S. economy should not be overlooked, for in 1984, Japan imported \$23.6 billion worth of American products, an increase of 8.8 percent over 1983, making Japan the largest market for U.S. exports next to Canada. As a matter of fact, it is the only major country opening up and not closing it's markets.

As our economies have grown more interdependent, the size of the trade problem between us has also grown. The U.S. trade deficit with Japan in 1981 was \$18 billion, considered huge and unacceptable at the time. By 1983, the trade deficit had increased to over \$21 billion. Then in 1984, our trade deficit with Japan soared to an enormous \$37 billion. It

appears that the 1985 trade deficit could reach as high as \$47 billion or more. As a result, the rumblings in the Congress about trade retaliation against Japan have become roars.

Protectionism is not the solution, but in recent months the threat of a trade war has become very real. We simply must solve our difficult trade issues. The question is how. First and foremost, we have to be honest with ourselves, and admit that we both share responsibility for the tensions now before us. We must get away from rhetoric and get down to reality, on both sides.

First, let me talk about what the U.S. must do. We need to put our trade problem with Japan into the proper context of our trade problem with the entire world. We had a global trade deficit of \$123.3 billion in 1984, of which Japan accounted for slightly less than 30 percent. While our deficit with Japan is increasing, our deficit with the rest of the world is increasing even faster. In 1980, we had a trade surplus of \$20.3 billion with Western Europe. By 1984, that had changed to a deficit of \$16.9 billion. In 1980, we had a surplus of \$1.3 billion with Latin America. By 1984, that had changed to a deficit of nearly \$18 billion. Last year we had a \$20.4 billion deficit with Canada, and

an \$11.1 billion deficit with Taiwan.

What this means is that we cannot simply blame Japan for our trade problem, because that problem is worldwide. While we press Japan to open its markets, we must also look at the notes in our own eyes, and realize much of the deficit is of our own making.

Probably the most important obstacle to American exports is the high value of the U.S. dollar. As U.S. Trade Representative Clayton Yeutter recently stated, the strong U.S. dollar lies at the root of the current trade problem. The strong dollar is, in turn, caused in large part by our huge budget deficit. In 1984, the United States government paid \$111 billion just to meet its interest payments on its national debt. The President's 1986 budget message estimated that by next year it will cost us over \$142 billion just to pay the debt interest -- that is just to pay interest, not to pay off the debt itself.

With such large borrowing by the government in capital markets, interest rates have been high for several years. Rates have been dropping in recent weeks, but are still too high by historical standards. Such high interest rates attract foreign capital to the U.S. in record amounts. This

reinforces the high value of the dollar, pricing U.S. products out of export markets. Take the case of the yen. In 1984, over \$49 billion worth of yen left Japan in net long-term capital invested abroad. Much of it went to the U.S. to take advantage of our high interest rates. Consequently, the yen has remained weak against the dollar, even though the yen is relatively strong against all other currencies. No matter how good our products may be, others are not going to buy them if they are too expensive.

What we in the U.S. need is less hand wringing and more initiative to solve this and other problems. I have been encouraged by action in the Congress to reduce the budget deficit. Congress is moving in the right direction, but not fast enough, and not far enough.

There are other areas where congressional action is needed. We have legislation preventing the export of surplus Alaskan oil. Japan and East Asia want to buy it; the Administration would like to be able to sell it; but the law prevents it. Such sales would put a big dent in our trade deficit with Japan. Only action by Congress can make this possible.

Our antiquated anti-trust laws often inhibit cooperation among American companies and hamper their

ability to compete with foreign companies in the international marketplace. Congress needs to take a hard look at what should be done to amend such legislation -- in order to give the competitive edge back to U.S. business. The large Japanese trading companies play a key role in acquiring market shares for Japanese goods abroad. Yet much of what they do would probably be illegal for American companies. This should not be the case. Our law should permit U.S. businessmen to cooperate for the purpose of competing for foreign projects and markets.

The private sector in the U.S. should also take action. American productivity has to increase at a faster pace if we are to hold our own, or I should say if we are to regain lost ground. According to the U.S. Department of Labor, manufacturing productivity rose 9.5 percent in Japan last year. By contrast, productivity in the United States rose only 3.5 percent. American business can increase its productivity at rates equal to Japan's; it simply must take the initiative. The tax reform plan now before the Congress could help a great deal in this regard, if it means companies are truly encouraged to invest based on what makes good business sense.

We also need to see better labor/management relations in the U.S. Great progress has been made

in this area in recent years, but all too often we still see an adversarial relationship which drains the productive energy of everyone involved. The same holds true for business/government relations. Only recently have we really started to work together to solve our problems, but we must do more.

Our companies also need to do more to provide the highest quality at the lowest prices, and more attentive follow-up service once our products are sold. This is particularly so in a market as competitive as Japan, where the customer expects to have a long-term relationship with the merchandiser.

Now let me talk about what Japan needs to do. Japan should realize -- and I believe it does -- that its economy is now an integrated part of the world economy and that this entails heavy responsibilities to its trading partners. The Japanese diplomatic yearbook for 1985, recently released by the Foreign Ministry, put the case very well: "Accepted for membership in the GATT, the United Nations, and the OECD, Japan has gradually come to be a major industrial democracy. As one of the world's leading countries, it is essential for Japan to fulfill its responsibility commensurate with its position in the international community, even though it may require self-sacrifice." I was also very impressed by Prime

Minister Nakasone's recent statement that Japan will act on its own initiative in opening its markets to foreign competition. As the Prime Minister put it, "If there is anything we ought to do we will work hard to do it, without being told to do so by other countries." Such leadership is going to be very important in solving our problems.

The days of protecting industry from fair competition should end. What we want is access to your markets -- not guarantees that we will sell; that is up to us. We simply want the same opportunities in your markets that you have in our markets -- and you should never forget the opportunities you have in the U.S., because for you the U.S. is the market that counts. We admit the macroeconomic problems -- such as the value of the dollar -- which make it difficult for us here. Nevertheless, the problems which we have in the U.S. must not be used as an excuse for preventing free and fair competition in the Japanese marketplace.

Most of Japan's economic growth is now due to exports. Your trade surplus is global - \$44 billion in 1984, and it could go well over \$50 billion in 1985 - and you are now feeling pressure from ASEAN and the European nations, as well as from the United States.

Again, access is the key to protecting Japan's foreign markets -- access to Japan's markets. Our trade deficit is likely to continue even if Japan's markets are fully opened, but once the U.S. and other nations are convinced that we are able to compete here on a fair basis, then the current trade frictions will subside. All that the U.S. asks for is fair access and opportunity in Japan, nothing more and nothing less.

Japan can do a number of things to ensure such access. In its June 25 announcement on tariff reductions, the government stated its willingness to reduce to zero the tariffs on all industrial items in the new trade round. I find this an excellent proposal, especially if the high tariffs on items made from forest products are included. Across the board elimination of tariffs on all industrial items would be real progress in opening Japan's markets, because many key sectors are still protected by carefully targeted tariffs. The planned elimination of tariffs on many industrial products announced on June 25 is a welcome step in the right direction. Would it not be worthwhile to see this extended to all industrial products and not just the selected items listed?

The unnecessarily high tariffs on agricultural

products should also be considered for elimination. There is no reason Japan should have a 25 percent duty on grapefruit, and high tariffs or quotas on tomato puree, walnuts, chocolates, wines, and many other agricultural products.. We welcome the progress made in reducing tariffs on many agricultural items announced last month, but frankly further work remains to be done. We would like Japan to consider the elimination of the quotas still in force on 27 items, most of them agricultural.

Most of the remaining tariffs and quotas are targeted on sectors in which the U.S. and other countries could be competitive suppliers, and could sell billions of dollars worth of goods. Japan's average tariff rate is low, but the targeting of tariffs on areas in which foreign competition could be most effective is a form of protectionism.

It would be a mistake to think that short-term stop gap measures are going to solve the problems between us. An attitude change is needed -- a change I think we may now be seeing -- a change away from the idea that Japanese companies should buy only from Japanese suppliers, even if the foreign competition may be better.

Japan needs to accept the idea that it should

import much more, especially manufactured products. The strong industrial base in Japan can accept competition, and can be more fully a part of the world economy if Japan increases imports and sets a new goal of balance and stability in its world trading relationships.

Japan has the second largest free-world economy, and Japan should begin to shoulder more responsibility. Japan's growth has for years been led by exports. A move toward more domestic-led growth could have substantial benefits for other nations of the world. In its White Paper on International Trade issued last month, MITI called for increasing private consumption and housing investment, increasing Japan's investment in infrastructure such as roads, housing, the environment and the like, and maintaining steady growth in private non-residential investment. I agree with this, because such actions would not only benefit Japan, but its trading partners throughout the world as well.

Action is needed across the board, anywhere and everywhere that we find barriers to free and fair competition from imports. Under Prime Minister Nakasone's leadership Japan has begun to move. We in the United States have not moved fast enough or far

enough to correct our trade problems, but neither has Japan moved fast enough or far enough in opening its markets as a full member of the industrialized free world. We must both do what is necessary to correct the trade imbalance. The time for rhetoric is over, the time for action is now. The world is watching us. We must not fail to do what needs to be done -- by both of us -- and the sooner the better.

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1985

Ambassador Mansfield Before the Japan
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